

# LOCHIEL EXPLORATION LTD.

AR23

## 1974 annual report

YEAR ENDED JANUARY 31, 1974







## HIGHLIGHTS

|                       | <u>1974</u> | <u>1973</u> |
|-----------------------|-------------|-------------|
| Gross Revenue . . . . | \$536,000   | \$515,000   |
| Cash Flow . . . . .   | 202,000     | 209,000     |
| — Per Share . . . .   | 3.7¢        | 4.0¢        |
| Net Income . . . . .  | 75,000      | 58,000      |
| — Per Share . . . .   | 1.3¢        | 1.1¢        |

### Land Holdings

#### Working Interest

|                     |           |            |
|---------------------|-----------|------------|
| — Gross Acres . . . | 8,650,000 | 10,078,000 |
| — Net Acres . . . . | 5,819,000 | 6,701,000  |

#### Royalty

|                     |           |           |
|---------------------|-----------|-----------|
| — Gross Acres . . . | 4,080,000 | 2,772,000 |
|---------------------|-----------|-----------|

*Front cover: Semi-submersible rig Western Pacesetter I on location in North Sea. This rig, owned by Western Oceanic of Houston, will drill test on block 21/1 in U.K. North Sea, in which Lochiel owns an interest.*



# LOCHIEL EXPLORATION LTD.

## DIRECTORS

THOMAS E. DAVIS

Executive, Ampex Corporation, Menlo Park, California

MERVYN S. DEVONSHIRE

Partner, Devonshire, Munro & Co., Chartered Accountants, Calgary, Alberta

ROLAND B. DODWELL

Investment Dealer, Walwyn, Stodgell & Gairdner Ltd., Toronto, Ontario

WILLIAM J. MAJOR, Q.C.

Partner, Major & Caron, Barristers & Solicitors, Calgary, Alberta

NICHOLAS W. TAYLOR

President of the Company, Calgary, Alberta

WILLIAM A. WORK

Secretary of the Company, Calgary, Alberta

*The untimely death of Stanley L. Melton on November 18, 1973 ended five years of dedicated service on the Board of Directors. His contributions and wise counsel are remembered with grateful appreciation.*

## OFFICERS

NICHOLAS W. TAYLOR, President

WILLIAM A. WORK, Secretary

MERVYN S. DEVONSHIRE, Treasurer

ALBERT H. PFEFFER, Controller & Assistant Treasurer

## HEAD OFFICE

550 - 6th Ave. S.W., Calgary, Alberta T2P 0S2

## REGISTRARS AND TRANSFER AGENTS

GUARANTY TRUST COMPANY OF CANADA

311 - 8th Ave. S.W., Calgary, Alberta and

366 Bay Street, Toronto, Ontario

## BANKERS

THE TORONTO-DOMINION BANK, Calgary Place, Calgary, Alberta

BANK OF MONTREAL, 140 - 8th Ave. S.W., Calgary, Alberta

## AUDITORS

TOUCHE ROSS & CO.

600 - 6th Ave. S.W., Calgary, Alberta

## SOLICITORS

MAJOR & CARON

600 - 6th Ave. S.W., Calgary, Alberta

## SHARES LISTED (Symbol LHX)

TORONTO STOCK EXCHANGE

CALGARY STOCK EXCHANGE



## AREAS OF INTEREST



## ACREAGE HOLDINGS

AS AT JANUARY 31, 1974

| Area                            | Working Interest  |                  | Royalty          |
|---------------------------------|-------------------|------------------|------------------|
|                                 | Gross Acres       | Net Acres        | Gross Acres      |
| CANADA                          |                   |                  |                  |
| Alberta . . . . .               | 188,023           | 110,917          | 139,720          |
| British Columbia . . . . .      | 1,402             | 1,402            | —                |
| Saskatchewan . . . . .          | 11,506            | 10,930           | —                |
| Arctic Islands . . . . .        | 2,161,235 (1)     | 2,060,617 (2)    | 1,425,271        |
| Beaufort Sea/MacKenzie Delta    | —                 | —                | 1,723,879        |
| Northwest Territories . . . . . | —                 | —                | 162,184          |
| Yukon Territory . . . . .       | —                 | —                | 385,608          |
| Pacific Offshore . . . . .      | 1,860,098 (1)     | 744,039          | 243,386          |
| Eastcoast Offshore . . . . .    | 2,948,478         | 2,556,627        | —                |
| INTERNATIONAL                   |                   |                  |                  |
| North Sea (U.K.) . . . . .      | 166,074           | 11,329           | —                |
| Italy/Sicily . . . . .          | 372,223           | 148,881          | —                |
| Turkey . . . . .                | 123,550           | 92,662           | —                |
| Cyprus . . . . .                | 545,017           | 54,502           | —                |
| Ghana . . . . .                 | 272,000           | 27,200           | —                |
|                                 | <u>8,649,606</u>  | <u>5,819,106</u> | <u>4,080,048</u> |
| Comparative holdings            |                   |                  |                  |
| January 31, 1973 . . . . .      | <u>10,077,988</u> | <u>6,700,991</u> | <u>2,772,119</u> |

(1) Includes acreage under application

(2) 1,123,790 acres are subject to option described elsewhere in this report





*left to right, R. L. Curr, Chief Geologist; N. W. Taylor, President; W. A. Work, Secretary; A. H. Pfeffer, Controller and Assistant Treasurer*

## To the Shareholders

The year 1973 witnessed a radical change in the oil and gas situation. Politically and economically motivated events produced long overdue price increases for oil in international and domestic markets.

Problems facing the industry must be solved in both the economic and the political sphere. It is important to maintain an orderly economy in the face of a major restructuring of the energy industry. Well thought out long-term government - industry cooperation is needed which avoids the pitfalls of political expediency or short term gain to a few. As energy becomes more involved with politics, the role of government inevitably grows, and some of the new investment may come from state funds whether it is proper or not. In this framework, the investor-owned oil companies with their know-how, equipment, and international investment capacity, will always be needed to find oil as cheaply as possible. However, governments will also demand a larger share of the revenue. Since mineral rights are usually owned by the state, the state can achieve its income objective by mark-ups, royalties, taxes, or even as a joint partner.

There should always be room for free enterprise and competition. We can expect this to take different forms in the future such as participation or production sharing agreements with governments of producing countries. Oil companies may be hired as contractors on a competitive basis by the state or the state oil company to find and produce oil and gas in certain areas.

Lochiel will continue to expand its operations both in Canada and abroad wherever the geological and political prospects seem promising. As an oil company we now have to spread our risks politically as well as geologically.

For Lochiel the year 1973 was a continuation of expansion into international exploration plays as well as more intensive efforts to maintain a broad exposure to frontier areas within Canada. In Alberta the company continued to expand its reserves.

In the Arctic Islands, exploration progressed to the point where the first well on Lochiel acreage is presently drilling in the King Christian area. The Elve Point well is being drilled at no cost to the company in an area that has seen seven discoveries in the immediate vicinity with no dry holes drilled so far. Gas successes in this area are rapidly building the reserves necessary for the construction of a pipeline to market.

Canada's east coast continental shelf will become a hotspot in the months to come. Lochiel has excellent exposure in this vast area, which is believed to have good potential for hydrocarbons.

In the North Sea, Lochiel will participate in its first U.K. offshore test. Drilling is expected to start in May.

With the exposure to drilling in the Arctic and the North Sea, Lochiel has reached an important level in its maturity as a balanced exploration and production entity. We feel that the company is well equipped to meet the challenge of the future.

On behalf of the Board  
NICHOLAS W. TAYLOR  
President

May 10, 1974.



# EXPLORATION REVIEW



*Commonwealth — Hi Tower Rig #1 presently drilling Elve M-40 test on Lochiel acreage in High Arctic.*

## ARCTIC

On March 21, 1974 the first well on Lochiel's Arctic holdings commenced drilling on an unnamed small island between King Christian and Ellef Ringnes Islands. Sun Oil and partners are drilling this 6000 foot test directionally to test an indicated seismic and slim-hole structure under the waters of Kristoffer Bay. The well, SUN GA KRC Con Panarctic Elve M-40, is located on a 252,000 acre block in which Lochiel owns a 3 percent gross overriding royalty, which is convertible at Lochiel's option, to a 12 percent working interest after production is sold on a permit by permit basis. The block, on which this test is located, is virtually surrounded by discoveries made during the last two drilling seasons. On the northern boundary lies the Kristoffer Bay gas discovery. The northwest side is offset by the Thor gas and oil discoveries. To the south lies King Christian Island with gas strikes at Wallis and Sutherland by Dome Petroleum Ltd. and two gas discoveries by Panarctic.

Research and engineering studies into the feasibility of constructing a natural gas pipeline from the Arctic Islands are continuing. These studies indicate that a pipeline will be technically, economically, and environmentally viable. The Polar Gas Project Study group, composed of Panarctic Oils Ltd. and major gas transmission and investment companies, is optimistic about filing an application early in 1976 to build this pipeline with hopes of advancing this date by one year if the favourable discovery rate of natural gas continues.

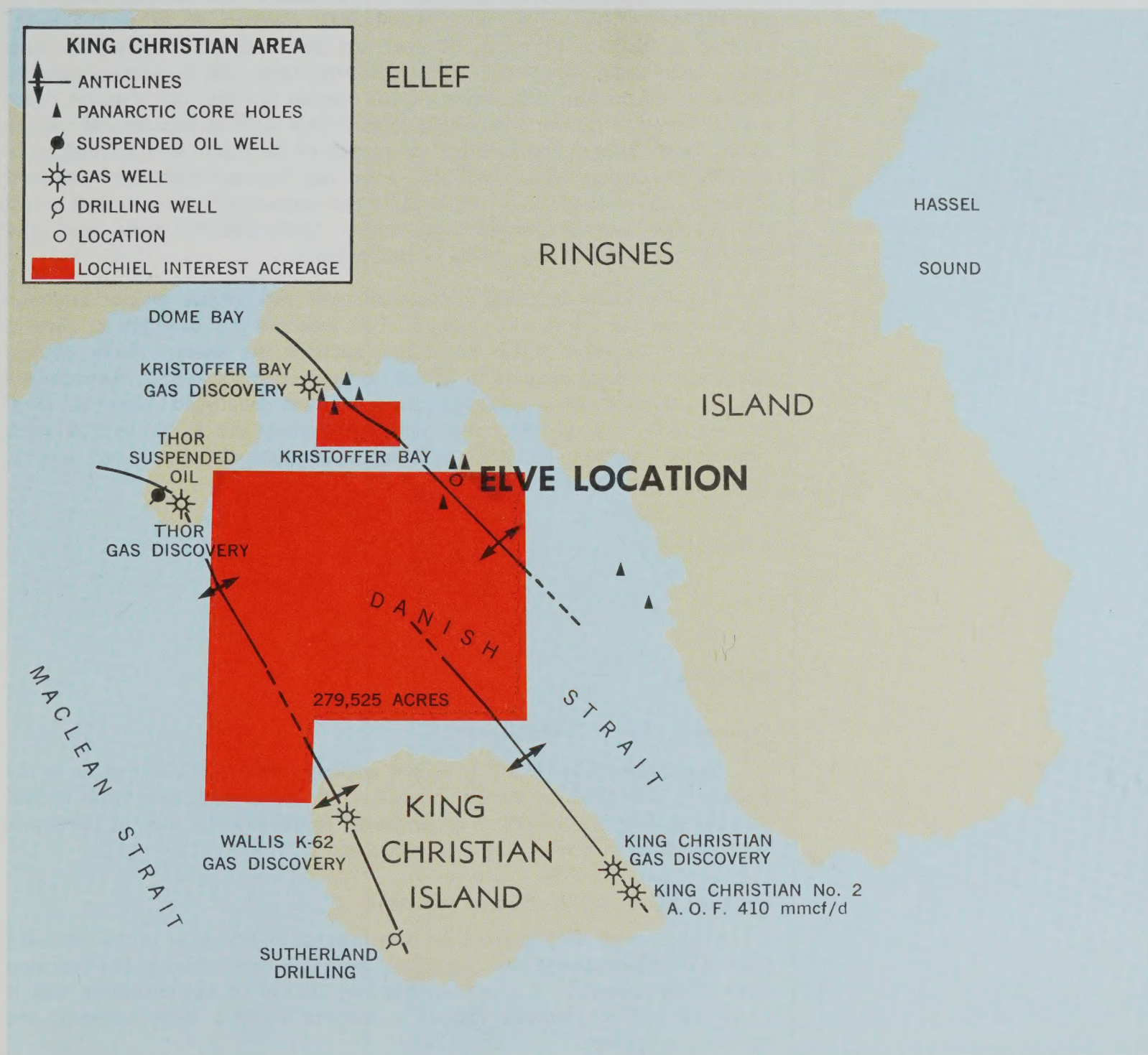
Exploration elsewhere in the Canadian Arctic continues with added emphasis on probing the offshore areas near the islands. In the Melville Island area, Panarctic Oils Ltd. has drilled a successful stepout well on a man-made ice island 8 miles west of the shoreline to test the limits of the Hecla reservoir discovered in 1973. Of further significance is the discovery of free oil by Panarctic in the older rocks of Paleozoic age on Cameron Island, where the Bent Horn well tested oil from a depth of 10,555 feet and production tested 500 BOPD.

## MACKENZIE DELTA/BEAUFORT SEA/YUKON

Drilling activity in the MacKenzie Delta has moved northward in the direction of Lochiel interests in the shallow waters of the Beaufort Sea. During the winter of 1973/1974 two wells were drilled from man-made islands, one of which was abandoned, and the second, Imperial Oil's Adgo F-28 reported oil and gas in significant quantities in several horizons. During the next year, fifteen rigs are forecasted to be drilling in the MacKenzie Delta. At least four will be working on man-made islands in the Beaufort Sea.

Lochiel owns gross overriding royalty and carried interests in 1.7 million acres in the Beaufort Sea. Applications have been filed in Canada and







the U.S.A. for the first approvals required for the MacKenzie Valley gas transmission system. Tentative schedule calls for commencement of construction in 1976 - 1977 with completion in 1979.

Southwest of the Delta and onshore in the Yukon and Northwest Territories, Lochiel owns royalty and carried interests in over 500,000 acres.

### **EAST COAST (ATLANTIC) OFFSHORE**

Lochiel has 2.9 million gross (2.4 million net) acres in this exploration play, scattered offshore from northeast Newfoundland to Labrador to Baffin Island. Exploration activity is still mainly in the geophysical stage, but the Eastcan group have drilled three wells to date on the southern portion of the Labrador Shelf. The most recent test, Eastcan et al Bjarni H-81, reached a total depth of 8,251 feet last fall and is rumoured to have encountered a significant hydrocarbon bearing zone. Due to adverse weather conditions production tests could not be carried out last fall. Present plans are rumoured to call for the drilling of additional wells in this area as well as a detailed evaluation and possible completion of the Bjarni well. Lochiel holds 1,050,000 acres gross and 682,000 acres net, approximately 90 miles east of the Bjarni location. B. P. Exploration has announced plans to drill a test this summer east of Newfoundland. Lochiel holds 500,000 acres gross and 293,000 acres net in the vicinity of this project.

The Canadian eastcoast continental shelf will attract greater attention from industry in the coming months. This area has the potential to develop into one of the most active exploration spots in the western world. Lochiel has a solid acreage position to take advantage of this potential. Recently the company commissioned a thorough geological and geophysical report on all of its eastcoast holdings which indicates our permits are in an area of thick sedimentary section. We plan to bring in partners to add to our seismic information and possibly drill.

### **ALBERTA**

#### **Dixonville (Peace River Area)**

The company holds a 75 percent working interest in 1920 acres in the Dixonville area where a number of recent gas discoveries have been drilled. One offset, 9-18-87-2 W6M, was completed in the Bluesky zone in 1973 with an absolute open flow of 9.6 mmcf per day.

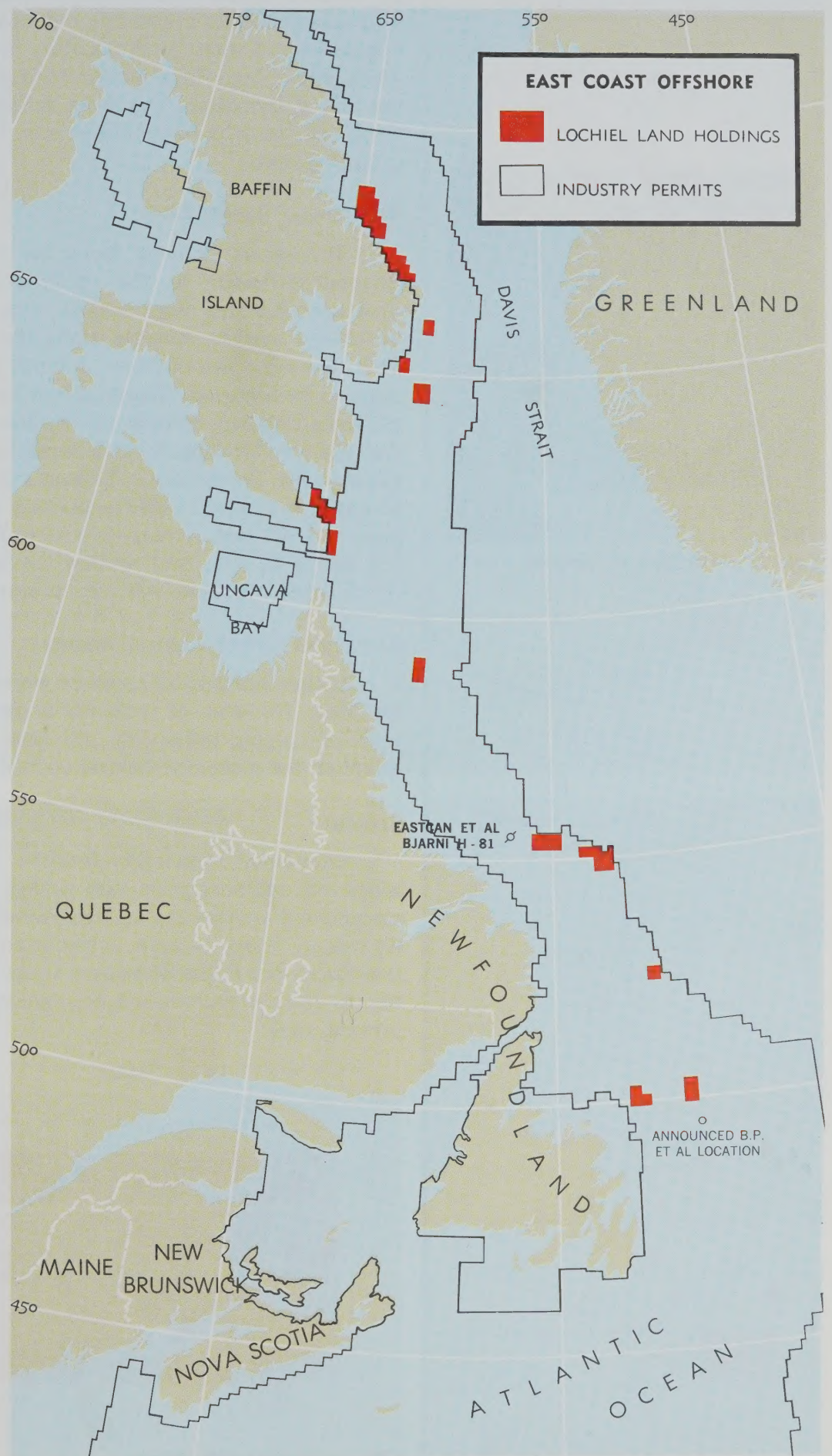
#### **Medicine River (West Central Alberta)**

Lochiel holds a 50 percent working interest in 320 acres in the Medicine River area. The acreage has been offset by a gas completion in the Ostracod sand which yielded 12.2 mmcf per day and 75 feet of condensate on test. A deep D-3 test is presently drilling in Section 15-38-4 W5M adjoining the company's acreage.



*Seismic work during inhospitable northern winter.*







### Atlee-Buffalo (Southeastern Alberta)

Four additional gas wells were drilled and completed in this area during the year. The TCP Lochiel Atlee 6-30-20-6 W4M well (50 percent Lochiel, 50 percent PanCanadian) was a deep test drilled to the Mississippian in the area where Lochiel presently produces gas from the Medicine Hat Sandstone. The well was a multi-zone discovery in four new zones, namely Foremost, Milk River, Viking, and Basal Quartz horizons. The well is presently producing from the Viking formation. The three follow-up wells extended the reserves in the Foremost and Milk River formations. Further development drilling in the area is anticipated.

### Bituminous Sands Area

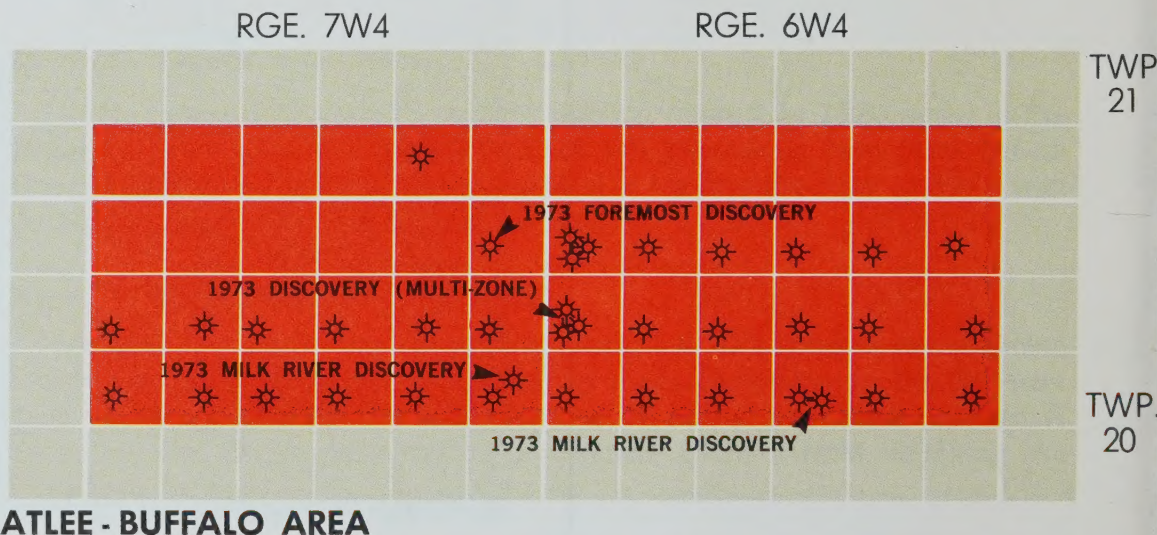
The recent political focus on the vast Alberta Oil Sand deposits has directed attention to the north and northeastern part of Alberta. This area contains the much talked about Athabasca bituminous sand deposits which are surface minable along the Athabasca River near Fort McMurray. This formation extends over a much larger area, covered by overburden too thick to be removed. Research into in-situ production methods of this type of oil are continuing throughout the world. Lochiel has Petroleum and Natural Gas Permits totalling 65,000 acres in the Alberta Oil Sand area outside the mining area. Dome Lochiel Legend 1-29-96-19W4M, recently drilled on Lochiel acreage at Legend Lake, contained approximately 21 feet of oil-saturated sand at 1690 feet. Acreage blocks in Township 89, Range 18 and in Township 79, Range 5, have had shallow Oil Sand tests drilled nearby, the results of which, when available, will help to evaluate the company's acreage blocks.

### Garrington (West Central Alberta)

Lochiel holds a 100 percent working interest in 160 acres in the Garrington area. The area is presently undergoing active development drilling with wells now being drilled on 160 acre spacing. A number of successes have extended the glauconitic field to Lochiel acreage.

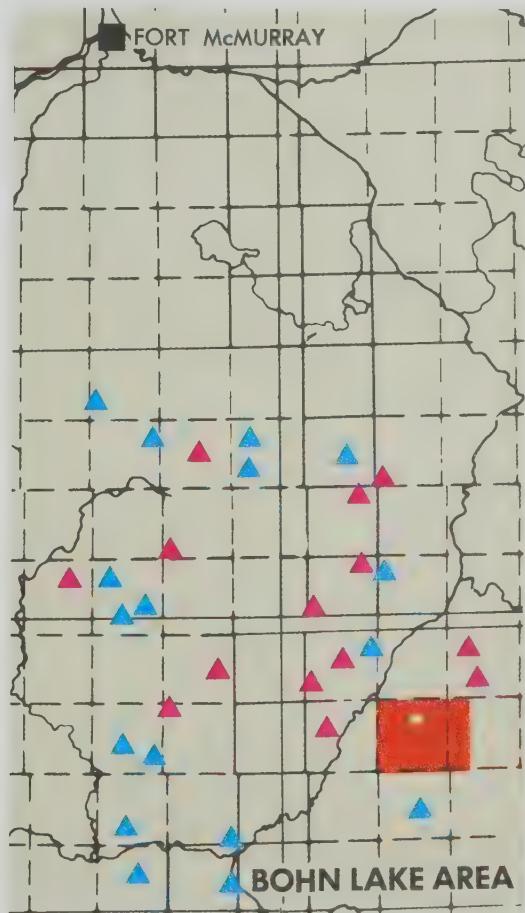
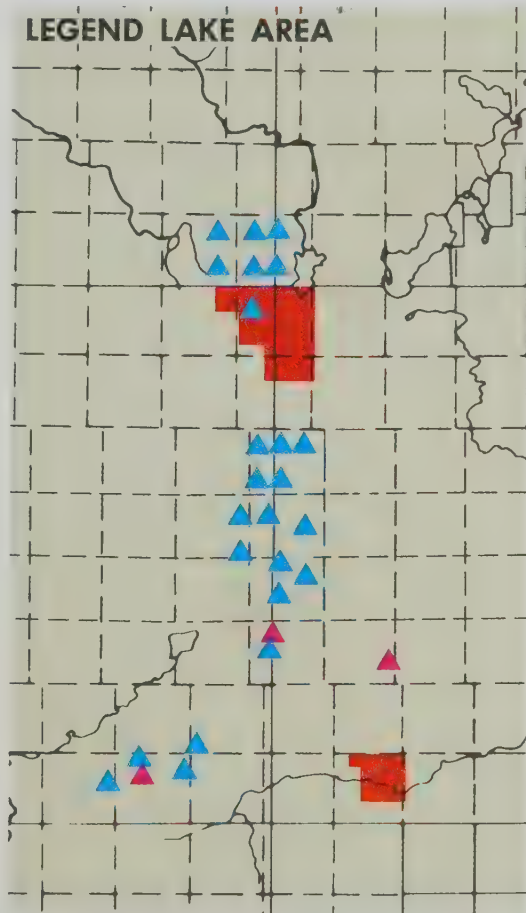
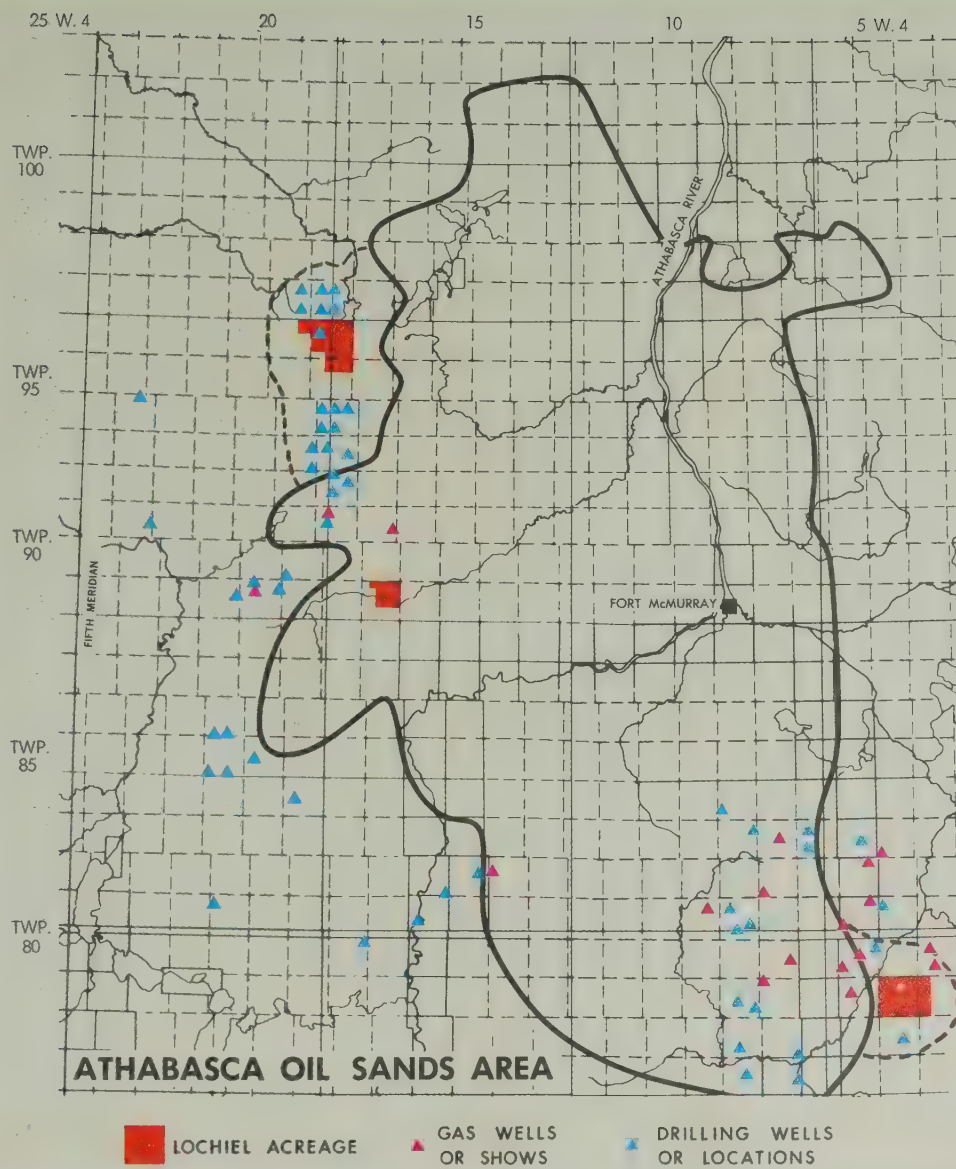
### General

Permanent production facilities were installed in the Claresholm area, where an additional test was drilled and abandoned. The Company is also carrying out engineering studies to evaluate waterflood recovery methods in the Wainwright heavy oil area. In the Swan Hills area, where the Company owns an interest in two House Mountain Units, facilities are presently under construction to recover and market casinghead gas, which has been flared up to the present time.



Typical rig drilling in western Alberta.







## CANADIAN ARCTIC



LOCHIEL LAND HOLDINGS

- \* OIL AND GAS WELL
- DRILLING WELLS & LOCATIONS
- ✱ GAS WELLS
- OIL WELLS
- ✧ ABANDONED WELLS

PRUDHOE BAY

U.S.A.  
CANADA

YUKON

BEAUFORT SEA

BANKS

ISLAND

VISCOUNT

VICTORIA

NORTHWEST TERRITORIES

PRINCE  
PATRICK  
I.





ELLESMERE

GREENLAND

ISLAND

AXEL

HEIBERG

ISLAND

ELLEF  
RINGNES  
I.

AMUND  
RINGNES  
I.

KING OF  
CHRISTIAN  
I.

LOUGHEED  
I.

CORNWALL  
I.

VANIER I.

BATHURST  
ISLAND

CORNWALLIS  
I.

DEVON ISLAND

BAFFIN  
BAY

LANCASTER SOUND

ELVILLE SOUND

STEFFANSSON  
I.

SOMERSET  
ISLAND

PRINCE  
OF  
WALES I.

BOOTHIA

PENINSULA

BAFFIN

ISLAND



# FOREIGN EXPLORATION

## NORTH SEA

The North Sea continues to yield large discoveries, and appears destined to become one of the world's great producing areas. Lochiel's holdings in the U.K. sector are in Block 39/1, located 25 miles south of the Ekofisk oil producing area, and 19 miles southeast of the Argyll Field and Blocks 21/1 and 21/6 twenty miles west of the Forties Field. The first North Sea well in which the company directly participates will be drilled this spring on Block 21/1. Primary objectives are sandstones found productive in the Forties Field to the east. The rig "Western Pacesetter" is expected to move to this location in May and completion is scheduled at the end of June. Lochiel participates with a one percent working interest in this test. During the year, extensive geological and geophysical studies were conducted in respect to Block 39/1. This block contains 57,350 acres in which Lochiel holds an 18 percent interest. The area lies to the east of the mid North Sea High within the Tertiary basin and is prospective in a number of horizons.

The company participated in a regional seismic shoot covering 10,000 miles of seismic lines over areas likely to become available in the next round of permit awards in the U.K. sector of the North Sea. Information obtained from this survey will be used to evaluate areas open for awards.

## IRELAND

Lochiel is a member of a group of companies which holds a non-exclusive exploration licence granted by the Republic of Ireland to explore the offshore waters surrounding this country. During the year the group carried out exploratory studies in preparation for upcoming permit awards.

## MEDITERRANEAN (Italy, Turkey, Cyprus)

The Mediterranean area remains an exciting exploration region. Industry activity is continuing and has resulted in some success. In Italy the prospects for large accumulations of gas and oil in the Adriatic Sea have spurred exploratory drilling. Lochiel, in partnership with Wintershall A. G. of Germany, is continuing active exploration of this area. During 1973, a \$140,000 seismic survey was completed at no cost to Lochiel on properties in Sicily. Evaluation of the work is continuing.

The company was awarded a concession in Turkey covering 125,000 acres offshore in the Gulf of Antalya. Lochiel's working interest is 58 percent. Company staff carried out surface geological studies in the immediate onshore region last winter and a seismic program will be carried out soon. It is expected that holders of a concession adjacent to Lochiel's acreage will shortly drill a well onshore to test this relatively unexplored area.

Lochiel also maintains a 10 percent interest in a 545,000 acre concession on and offshore Cyprus, where interpretation of previously conducted seismic surveys was continued during the year.

•JZMIR



*Western Pacesetter on Location in U.K. North Sea.*









### OTHER INTERNATIONAL AREAS

In Ghana, West Africa, where Lochiel holds a 10 percent interest in an offshore concession, interpretation of seismic surveys completed in 1973 resulted in reduction of the concession acreage. The remaining two blocks show promise of good potential. A offshore test on an adjoining block drilled by Zapata Exploration Co. has tested significant amounts of natural gas. A second test nearby is scheduled to be drilled shortly.

During the year the company joined a group of international oil firms to apply for concessions in Bangladesh, Burma, Norway, Iran and Pakistan. Awards to the industry are expected to be made in 1974.

The company expects to participate actively in other foreign exploration ventures in the future.

### MINING

#### Baker Lake, Northwest Territories

Exploration of this uranium prospect continued during the year. Early in 1974 the group, in which Lochiel is a 8.6 percent participant, acquired additional permits covering 1.5 million acres. The company considers it important to continue exploration efforts for uranium and anticipates the demand for this mineral to increase substantially.

#### Cache Creek, British Columbia

A drilling program was carried out on this property in the fall of 1973, which indicated some gold values in addition to showings of other metals. This acreage lies one mile north of the producing Maggie Mine in north central British Columbia.

#### Godlin Lakes, Northwest Territories

Lochiel participated in the staking of 1,150 mining claims in this region about 150 miles southwest of Norman Wells, near the old Canol Road. The claims are in close proximity to lead-zinc prospects staked earlier by Welcome North Mines Ltd., which are being explored by Bethlehem Copper Corp. Ltd. Showings of lead, zinc and copper occur on some of these claims. Initial mapping and prospecting work has been carried out in preparation for a more extensive program planned in the summer of 1974. Lochiel's interest in this project is 5%.



## FINANCIAL and OPERATING REVIEW

Revenue from sales of crude oil and natural gas increased slightly over the last year to \$536,290. During the year the company re-negotiated its gas purchase contracts with TransCanada Pipelines to receive 26 cents per MCF for gas sold after November 1, 1973. This represents an increase of 10.5 cents per MCF or more than 60 percent. Since this price increase is only reflected in the results of the last quarter of the fiscal year ended January 31, 1974, revenues for the coming year will show an increase. Effective January 1, 1974, however, the Province of Alberta increased its royalty on our gas to a basic rate of approximately 22 percent from 16 $\frac{2}{3}$  percent. On the basis of recent arbitration results, the company expects that a further substantial increase in these gas prices to 73 cents per MCF will occur on November 1, 1975. The recently announced escalation in Alberta crude oil prices will also benefit the company, although rising royalties will take a good portion of this increase.

Production of natural gas during the fiscal year amounted to 2.3 billion cubic feet, or 6400 MCF per day compared to 7,600 MCF per day during 1973. Crude oil production totalled 29,000 barrels.

Cash flow from operations last year amounted to \$201,570 and net income was \$74,692 compared to restated income for 1973 of \$58,048. The restatement of last year's results was necessary to reflect the change in recording deferred income taxes in respect of all timing differences between accounting and taxable income, as advocated by the Canadian Provincial Securities Administrators. Expenditures for acquisitions of properties, plant and equipment, drilling and exploration amounted to \$1,015,000, an increase of 12 percent over the previous year. Out of this total \$684,000 was spent on properties outside of Canada in order to broaden the base of our operations. Since year end the company has received \$166,000 through extension of options on its lands. Projections suggest that this amount, in addition to cash flow, will cover costs of programs anticipated in the coming year.

Further drilling in the Atlee-Buffalo area of Alberta during 1973 has resulted in additional gas reserves in both the deeper and shallower horizons than that from which gas is presently being produced. The company also owns a 50 percent interest in these new reserves. It is expected that some additional reserves will go on stream during 1974.

Reserves at February 1, 1974 (before deduction of royalties) as estimated by our own staff:

|                                       | Natural Gas<br>(Billion cu. ft.) | Crude Oil<br>(barrels) |
|---------------------------------------|----------------------------------|------------------------|
| Proven developed .....                | 53.0                             | 214,000                |
| Proven undeveloped and probable ..... | 17.3                             | 860,000                |
|                                       | 70.3                             | 1,074,000              |



# LOCHIEL EXPLORATION LTD.

## Consolidated Balance Sheet at January 31, 1974

### assets

|   | <u>1974</u>        | <u>1973</u><br>(Restated) |
|---|--------------------|---------------------------|
| <b>Current Assets</b>   |                    |                           |
| Cash and term deposits . . . . .                                    | \$ 71,822          | \$ 520,582                |
| Marketable securities, at cost (Note 2)                             |                    |                           |
| (Market value \$88,182) . . . . .                                   | —                  | 155,670                   |
| Accounts receivable - trade . . . . .                               | 138,524            | 170,804                   |
| Prepaid expenses . . . . .  | 3,321              | 3,252                     |
|   | <u>213,667</u>     | <u>850,308</u>            |
| <br><b>Investments and Long-Term Receivables (Note 2) . . . . .</b> | <br>679,390        | <br>397,288               |
| <br><b>Property, Plant and Equipment (Notes 1 &amp; 3)</b>          |                    |                           |
| At cost . . . . .   | 5,076,852          | 4,170,988                 |
| Accumulated depreciation and depletion . . . . .                    | 547,450            | 458,412                   |
|   | <u>4,529,402</u>   | <u>3,712,576</u>          |
|   | <u>\$5,422,459</u> | <u>\$4,960,172</u>        |

### AUDITORS' REPORT

#### TO THE SHAREHOLDERS

#### LOCHIEL EXPLORATION LTD.

We have examined the consolidated balance sheet of Lochiel Exploration Ltd. and subsidiary companies as at January 31, 1974 and the consolidated statements of income, deficit and sources and uses of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the companies as at January 31, 1974 and the results of their operations and the sources and uses of their funds for the year then ended, in accordance with generally accepted accounting principles applied, after giving retroactive effect to the change in the method of income tax allocation described in Note 1 to the financial statements, on a basis consistent with that of the preceding year.

Calgary, Alberta  
March 28, 1974

TOUCHE ROSS & CO.  
Chartered Accountants.



## liabilities

|   | <u>1974</u>      | <u>1973</u><br>(Restated) |
|---|------------------|---------------------------|
| <b>Current Liabilities</b>                      |                  |                           |
| Accounts payable . . . . .                      | \$ 47,857        | \$ 219,629                |
| Current portion of long-term debt . . . . .     | 275,000          | 275,000                   |
|   | <u>322,857</u>   | <u>494,629</u>            |
| <b>Long-Term Debt (Note 4)</b>                  |                  |                           |
| Production loans, secured . . . . .             | 934,184          | 1,007,886                 |
| Less current portion . . . . .                  | 275,000          | 275,000                   |
|   | <u>659,184</u>   | <u>732,886</u>            |
| <b>Deferred Income Taxes (Note 1)</b> . . . . . | 110,936          | 73,707                    |
|   | <u>1,092,977</u> | <u>1,301,222</u>          |

## shareholders equity

|  |                    |                    |
|--|--------------------|--------------------|
| <b>Capital Stock (Note 5)</b>                        |                    |                    |
| Authorized   |                    |                    |
| 10,000,000 shares of no par value                    |                    |                    |
| Issued   |                    |                    |
| 5,592,926 shares (1973 - 5,362,726 shares) . . . . . | 5,329,826          | 4,733,986          |
| <b>Deficit</b> . . . . .                             | (1,000,344)        | (1,075,036)        |
|  | <u>4,329,482</u>   | <u>3,658,950</u>   |
|  | <u>\$5,422,459</u> | <u>\$4,960,172</u> |

Signed on behalf of the Board

N. W. Taylor, Director

W. A. Work, Director



# LOCHIEL EXPLORATION LTD.

## Consolidated Statement of Income

For The Year Ended January 31, 1974

|  | <u>1974</u>      | <u>1973</u><br>(Restated) |
|--|------------------|---------------------------|
| <b>Revenue</b>                                 |                  |                           |
| Oil and gas sales . . . . .                    | \$ 536,290       | \$ 514,997                |
| Less royalties . . . . .                       | 77,018           | 64,775                    |
| Net sales . . . . .                            | 459,272          | 450,222                   |
| Other income . . . . .                         | 21,801           | 39,491                    |
|  | <u>481,073</u>   | <u>489,713</u>            |
| <b>Expenses</b>                                |                  |                           |
| Operating — lifting costs . . . . .            | 93,852           | 111,812                   |
| — lease rentals and taxes . . . . .            | 18,109           | 18,352                    |
| General and administrative . . . . .           | 87,871           | 91,941                    |
| Interest on long-term debt . . . . .           | 79,671           | 58,606                    |
|  | <u>279,503</u>   | <u>280,711</u>            |
| Cash flow from operations . . . . .            | 201,570          | 209,002                   |
| <b>Non-cash charges (Note 1)</b>               |                  |                           |
| Depletion . . . . .                            | 65,046           | 83,169                    |
| Depreciation . . . . .                         | 24,602           | 36,285                    |
| Deferred income taxes . . . . .                | 37,230           | 31,500                    |
|  | <u>126,878</u>   | <u>150,954</u>            |
| Net income for the year . . . . .              | <u>\$ 74,692</u> | <u>\$ 58,048</u>          |
| Net income per common share (Note 1) . . . . . | <u>1.3¢</u>      | <u>1.1¢</u>               |

## Consolidated Statement of Deficit

For The Year Ended January 31, 1974

|  | <u>1974</u>        | <u>1973</u>        |
|--|--------------------|--------------------|
| <b>Deficit at beginning of year</b>                                    |                    |                    |
| As previously reported . . . . .                                       | \$1,038,286        | \$1,127,834        |
| Adjustment of prior years'<br>deferred income taxes (Note 1) . . . . . | 36,750             | 5,250              |
| As restated . . . . .  | 1,075,036          | 1,133,084          |
| Net income for the year . . . . .                                      | 74,692             | 58,048             |
| <b>Deficit at end of year</b> . . . . .                                | <u>\$1,000,344</u> | <u>\$1,075,036</u> |



# LOCHIEL EXPLORATION LTD.

## Consolidated Statement of Sources and Uses of Funds

For The Year Ended January 31, 1974

|  | <u>1974</u>                | <u>1973</u>              |
|--|----------------------------|--------------------------|
| <b>Sources of Funds</b>                                      |                            |                          |
| Cash flow from operations . . . . .                          | \$ 201,570                 | \$ 209,002               |
| Issuance of capital stock (Note 5) . . . . .                 | 595,840                    | 37,840                   |
| Net proceeds from farmouts . . . . .                         | 109,168                    | 781,916                  |
| Increase in long-term debt . . . . .                         | 200,000                    | 200,000                  |
| Deposits refunded . . . . .                                  | —                          | 1,574                    |
|  | <u>1,106,578</u>           | <u>1,230,332</u>         |
| <br><b>Uses of Funds</b>                                     |                            |                          |
| Property, plant and equipment . . . . .                      | 1,015,643                  | 908,638                  |
| Reduction of long-term debt . . . . .                        | 273,702                    | 275,000                  |
| Investments and long-term receivables (Note 2) . . . . .     | 146,771                    | 497                      |
| Reclassification of marketable securities (Note 2) . . . . . | 135,331                    | —                        |
| Reduction in participants' advances . . . . .                | —                          | 36,396                   |
|  | <u>1,571,447</u>           | <u>1,220,531</u>         |
| <br><b>Decrease (Increase) In Working Capital . . . . .</b>  | <b>464,869</b>             | <b>(9,801)</b>           |
| <b>Working Capital, beginning of year . . . . .</b>          | <b>355,679</b>             | <b>345,878</b>           |
| <b>Working Capital (Deficiency), end of year . . . . .</b>   | <b><u>\$ (109,190)</u></b> | <b><u>\$ 355,679</u></b> |



# LOCHIEL EXPLORATION LTD.

## Notes to Consolidated Financial Statements

January 31, 1974

### 1. Accounting Policies

(a) The consolidated financial statements include the accounts of the company and its wholly-owned subsidiaries, Lochiel Oil & Gas (1972) Ltd. and Taiga Offshore Limited.

(b) The companies follow the full cost method of accounting whereby all costs relating to the exploration for and the development of oil and gas reserves, including related overhead costs, are capitalized. Proceeds from disposal of properties are normally deducted from costs without recognition of gain or loss.

Costs related to Canadian operations, excepting the Arctic Islands and Offshore Canada, are depleted using the unit of production method based on estimated proven recoverable reserves of oil and gas.

Costs related to the Arctic Islands and offshore Canada, carried in the accounts at \$770,535 and costs related to foreign areas, carried in the accounts at \$1,006,880, have been capitalized pending the outcome of exploration in each country or area.

Depreciation of production equipment is computed in a similar manner, based on related reserves.

(c) Current accounting practice recommends the recording of corporate income taxes on the tax allocation basis for all timing differences between accounting income and taxable income. In prior years the company followed this policy in respect of timing differences relating only to tangible assets. The company has now adopted this policy with respect to intangible development and exploration expenditures. Accordingly, deferred income taxes of \$37,230 have been recorded in the accounts for the current fiscal year.

Deficit at January 31, 1973 previously reported as \$1,038,286 has been restated to show a retroactive charge of \$36,750 representing cumulative additional deferred income taxes to January 31, 1973. Of the \$36,750, \$31,500 is applicable to 1973 and has been charged to income for that year. Net income for the year ended January 31, 1973, previously reported as \$89,548, has been restated to \$58,048, and net income per common share previously reported as 1.7¢ has been restated to 1.1¢ to reflect this change.

The remaining \$5,250 is applicable to years prior to February 1, 1972, and has been charged to deficit at that date, previously reported as \$1,127,834.

### 2. Investments and Long-Term Receivables

|   | <u>1974</u>       | <u>1973</u>       |
|---|-------------------|-------------------|
| Investment in Petromines Limited . . . . .              | \$ 334,727        | \$ 335,580        |
| Other shares, at cost (Market value \$69,680) . . . . . | 135,331           | —                 |
| Long-term receivables . . . . .                         | 180,246           | —                 |
| Refundable deposits . . . . .                           | 29,086            | 61,708            |
|   | <u>\$ 679,390</u> | <u>\$ 397,288</u> |

The investment in Petromines Limited represents 893,281 shares or approximately 25% of issued capital. 374,281 shares are subject to an escrow agreement. Market value of this investment at January 31, 1974 was approximately \$161,000. Due to the number of shares involved, market value is not necessarily indicative of the amount realizable upon sale.



During the year investments in shares of other companies, carried at cost of \$135,331 were re-classified from marketable securities to long-term investments reflecting a change in policy with respect to these investments.

### 3. Property, Plant and Equipment

|  | 1974               |   | 1973               |   |
|--|--------------------|---|--------------------|---|
|  | <u>Cost</u>        | <u>Accum.<br/>Depletion<br/>&amp; Deprec.</u> | <u>Cost</u>        | <u>Accum.<br/>Depletion<br/>&amp; Deprec.</u> |
| Petroleum and natural gas<br>leases and rights,<br>including exploration &<br>development (Note 1) . | \$4,194,202        | \$ 349,427                                    | \$3,292,348        | \$ 284,381                                    |
| Production equipment . .   | 874,672            | 194,123                                       | 871,725            | 170,898                                       |
| Other equipment . . .  | 7,978              | 3,900   | 6,915              | 3,133   |
|  | <u>\$5,076,852</u> | <u>\$ 547,450</u>                             | <u>\$4,170,988</u> | <u>\$ 458,412</u>                             |

### 4. Long-Term Debt

Bank production loans are secured by an assignment of the company's interest in certain producing properties and are repayable in monthly instalments of approximately \$23,000 plus interest.

### 5. Capital Stock

During the year, 170,000 shares were issued for properties in Italy and Sicily and all of the issued shares of Taiga Offshore Limited, a U.K. corporation, which owns interests in the U.K. sector of the North Sea. Total consideration for this issue amounted to \$510,000.

During the year officers and employees exercised stock options on 60,200 shares. Consideration for these shares was accepted by the company in the form of notes receivable totalling \$85,840. This amount is included in investments and long-term receivables (See Note 2). During the year an additional option was granted for 8,000 shares exercisable at \$2.00 per share cumulatively over 5 years.

At January 31, 1974, a total of 67,800 shares were reserved for issue to officers and employees as incentive stock options at prices ranging from \$1.10 to \$2.00 per share. These options may be exercised cumulatively and expire in 1975, 1976, and 1978.

### 6. Contingent Liabilities

The company has issued non-interest bearing promissory notes totalling \$290,200 in favour of various government authorities. These notes are lodged as security for commitments on exploratory permits. In addition, the company has guaranteed a bank loan for \$225,000. This guarantee is secured by an escrow provision relating to the 170,000 shares issued as consideration for shares of Taiga Offshore Limited and properties as described in Note 5.

### 7. Remuneration of Officers and Directors

The aggregate direct remuneration paid to directors and officers of the company during the year is as follows:

|   | <u>Number</u> | <u>Amount</u> |
|---|---------------|---------------|
| Directors . . . . .                         | 7             | \$ 3,000      |
| Officers, of whom two were also directors . | 3             | \$ 95,215     |







AR23

*CanCorp*

LOCHIEL EXPLORATION LTD.

## Interim Report

FOR THE SIX MONTHS ENDED JULY 31, 1974

## TO THE SHAREHOLDERS:

Financial results of the first half of 1974 continued the upward trend established during the first quarter. The improvements are essentially due to the high capital expenditures made in the last two years and from improved prices for oil and gas.

Product sales for the six months ended July 31, 1974 were \$349,000 up from \$238,000 for the same period in 1973. Cash flow was \$145,000 up from \$114,000. Net income for the first half of 1974, after full provision for deferred income taxes, was \$67,000 compared with \$38,000 in 1973, an increase of 76%. Royalty payments to governments were \$69,000 compared with \$30,000 in 1973, an increase of 130%.

## EXPLORATION

### North Sea

Transworld Petroleum, operator of Lochiel's first well interest in the North Sea, has announced that available drilling, testing and logging information obtained from drilling of the first well on Block 21/1 in the UK sector indicates a commercial discovery from Jurassic sands. Lochiel is a 1% participant in this test, which is located close to the boundary of Block 20/5. The latter Block is owned by Texaco, which contributed 50% of the cost of this well. The drilling of delineation wells will be required to establish the full significance of this discovery. Lochiel also owns a 1% interest in an adjoining Block 21/6. The discovery area is located 94 miles northeast of Aberdeen, Scotland and within 20 miles of the pipeline connecting the Forties field to Cruden Bay in Scotland.

### East Coast (Atlantic) Offshore

The adjoining maps highlight Lochiel's holdings along the Atlantic coast of Canada, where exploration activity has now advanced to the drilling stage on many permits. The Company holds 2.9 million acres (2.4 million net acres) scattered from Newfoundland to Labrador to Baffin Island in the north. These holdings provide Lochiel with the opportunity of participating in a number of promising different geological environments.

Hydrocarbon shows reported at the Eastcan et al Bjarni well have given encouragement that major accumulations may lie offshore in the Labrador Sea. The well was drilled in the summer of 1973 but was suspended because of weather conditions before any testing could be carried out. The operator is presently drilling a new test, Eastcan et al Gudrid, 75 miles southeast of Bjarni. On completion of this test the rig is scheduled to return to Bjarni to complete testing. Approximately 500 miles to the south, BP Canada and Columbia Gas are now drilling the Bonavista location in 1100 feet of water towards an objective of 13,500 feet. Columbia Gas has committed to spend \$25 million in exploration on the BP acreage.

A major study of Canada's petroleum potential — Future Petroleum Provinces of Canada — published in 1973 by the Canadian Society of Petroleum Geologists considers the Continental Shelf of eastern Canada ideal for hydrocarbon potential. The area is huge, not only in areal extent, but also from the point of view of oil and gas potential. Permits issued to industry on this shelf cover 300,000 square miles (or 200 million acres) and are estimated to contain one million cubic miles of sediments, compared with 615,000 cubic miles in Western Canada.

The C.S.P.G. study suggests that if it is assumed the area contains 30,000 barrels per cubic mile (a low figure), then 30 billion barrels of hydrocarbon liquids may ultimately be found. Using 6,000 cubic feet of gas per barrel for conversion, the area could have, in addition, 180 trillion cubic feet of gas. Assuming further that two thirds of this amount is contained in twenty reservoirs, each field could contain one billion barrels of liquid and six trillion cubic feet of gas. This is only one giant field per 62 miles of coast. If it is imagined that bituminous-rich sediments such as those present on western Greenland also occur from place to place within the Canadian coastal plain sediments, the estimate offered may be quite low.

A geological and geophysical appraisal of the Company's holdings based on 1300 miles of regional seismic data obtained on or near Lochiel's permits, indicates excellent potential. Active negotiations for participation by other companies in further regional and detailed seismic coverage and eventual drilling are presently in progress.

On behalf of the Board

N. W. TAYLOR  
President

August 15, 1974



*Sub*  
**LOCHIEL EXPLORATION LTD.**  
**CONSOLIDATED STATEMENT OF INCOME**  
 for six months ended July 31, 1974  
 (Unaudited)

|                            | <u>1974</u>      | <u>1973</u>        |
|----------------------------|------------------|--------------------|
| REVENUE                    |                  |                    |
| Oil and gas sales          | \$349,000        | \$238,000 ✕        |
| Less: royalties            | 69,000           | 30,000             |
| Net sales                  | 280,000          | 208,000 <i>66</i>  |
| Other income               | 10,000           | 21,000             |
|                            | <u>290,000</u>   | <u>229,000 ✕</u>   |
| EXPENSES                   |                  |                    |
| Operating                  | 58,000           | 44,000             |
| General and administrative | 37,000           | 36,000             |
| Interest on long-term debt | 50,000           | 35,000             |
|                            | <u>145,000</u>   | <u>115,000</u>     |
| CASH FLOW FROM OPERATIONS  | 145,000          | 114,000            |
| NON-CASH CHARGES           |                  |                    |
| Depletion                  | 33,000           | 39,000             |
| Depreciation               | 12,000           | 17,000             |
| Deferred income taxes      | 33,000           | 20,000             |
|                            | <u>78,000</u>    | <u>76,000</u>      |
| NET INCOME FOR THE PERIOD  | <u>\$ 67,000</u> | <u>\$ 38,000 ✕</u> |

**CONSOLIDATED STATEMENT OF SOURCES AND USES OF FUNDS**  
 for six months ended July 31, 1974  
 (Unaudited)

|   | <u>1974</u>      | <u>1973</u>      |
|---|------------------|------------------|
| SOURCES OF FUNDS                                |                  |                  |
| Cash flow from operations                       | \$145,000        | \$114,000        |
| Net proceeds from farmouts                      | 144,000          | 71,000           |
| Issuance of capital stock                       | 28,000           | 69,000           |
|   | <u>317,000</u>   | <u>254,000</u>   |
| USES OF FUNDS                                   |                  |                  |
| Property, plant and equipment                   | 162,000          | 105,000          |
| Reduction of long-term debt                     | 99,000           | 134,000          |
| Investments and long-term receivables           | 30,000           | 69,000           |
| Reclassification of marketable securities       | —                | 156,000          |
|   | <u>291,000</u>   | <u>464,000</u>   |
| INCREASE (DECREASE) IN WORKING CAPITAL          | 26,000           | (210,000)        |
| WORKING CAPITAL, beginning of period (see note) | 166,000          | 631,000          |
| WORKING CAPITAL, end of period                  | <u>\$192,000</u> | <u>\$421,000</u> |

NOTE: The company has discontinued recording a provision for the current portion of production loans. These loans are repayable out of future production proceeds and accordingly are not expected to require the use of existing resources. Working capital has thereby been increased by \$275,000 in both periods.

# CANADIAN EAST COAST

LOCHIEL ACREAGE

SCALE: 1 INCH = 140 MILES

GREENLAND

BAFFIN ISLAND









